

**MEMORANDUM**

**To:** Board of Regents  
**From:** Board Office  
**Subject:** Regent Legislative Program  
**Date:** December 12, 2003

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**Recommended Actions:**

1. Receive updated information on state revenue estimates for FY 2004 and FY 2005.
  2. Reaffirm the earlier Regent Legislative Program issues and budget recommendations contained in Attachment A and adding the following: "The Regents will support efforts to change the statutory timing requirement for setting tuition at the state universities".
  3. Actively pursue state financing methods, other than direct capital appropriations, for critical safety and academic capital projects.
  4. Adopt a resolution (Attachment B) to provide contingent direction to the institutions in planning for potential reductions in FY 2005 state operating appropriations.
  5. Continue to provide information to lowans on the opportunities for education, research, public services and economic growth that may be at risk unless state appropriations are stabilized in FY 2005.
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**Executive Summary:**

Legislative Session	The 2004 Session of the General Assembly is scheduled to convene on Monday, January 12, 2004.
Revenue Estimating Conference	<p>The Revenue Estimating Conference met on December 8, 2003, and determined:</p> <ul style="list-style-type: none"><li>• FY 2004 revenue estimates at \$14.9 million less than the October 2003 projection.</li><li>• The official FY 2005 state revenues projections, upon which expenditure levels are set at 99%.</li></ul> <p>Based on official estimates for FY 2005 state revenues established by the Revenue Estimating Conference on Monday, December 8, state budget officials project a gap of approximately \$300 million between these revenues and committed state expenditures for FY 2005.</p>
Potential Budget Implications	<p>Due to the level of projected revenues, state appropriations for FY 2005 could be reduced, unless action is taken to increase state revenues.</p> <p>As a result, the Regents should simultaneously consider providing direction to the institutions on planning for potential reductions and making clear to lowans the potential negative impact on opportunities for individuals, communities, and the state's economy from any further reductions.</p>

Bonding Proposal  
For Academic  
Buildings

Pursuant to Board direction in November 2003, a multi-year bonding proposal for academic buildings is recommended. Since it appears that appropriated state funds may not be available for new capital projects at the Regent universities, the Board is asked to consider seeking authorization from the legislature to sell academic building revenue bonds over the next three years for high priority facility needs of approximately \$120 million to support instruction and research.

The identified projects are contained in the five-year capital program approved by the Board in September 2003.

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**Background and Analysis:**

Prior Board Action

In September 2003, the Board approved appropriations requests for FY 2005 operations, incremental salaries, tuition replacement and capitals.

At its November 2003 meeting, the Board authorized Board staff and legislative liaisons to:

- Actively pursue regulatory relief of burdensome, costly, and/or obsolete statutory requirements.
- Explore opportunities for alternative financing methods and additional funding through other legislative means and other state agencies.

The Board is being asked to reaffirm the Regent Legislative Program issues and budget recommendations as presented to the Board in November 2003. These are included as Attachment A.

Revenue  
Estimating  
Conference

The Revenue Estimating Conference (REC) met December 8 to review the FY 2004 and FY 2005 estimates of General Fund revenues, lottery and other transfers, accruals, refunds, and gambling revenues transferred to other funds.

For FY 2004, the REC total estimated net revenues available to the State General Fund decreased \$14.9 million from the October estimate. It is anticipated that no further appropriation reductions will be implemented for FY 2004.

For FY 2005, the estimated increase in State General Fund revenues is \$67.7 million from the FY 2004 estimated revenues.

Because of previous commitments for state appropriations in FY 2005, state budget officials project a gap of approximately \$300 million between the REC projected revenues for FY 2005 and committed state expenditures for FY 2005.

Potential Budget  
Implications

The Board of Regents, State of Iowa, has responsibility for directing the expenditures of the Regent institutions. The serious gap between projected state revenues and committed expenditures raises the possibility of further reductions in state support of the Regent institutions in FY 2005 and fewer opportunities for Iowans. This is a serious concern.

- The level of state support for the Board and its institutions peaked in FY 2001 at \$694.8 million. State appropriations for FY 2004 are currently at \$591.5 million — a reduction of over \$100 million annually.
- Additionally, underfunded and unfunded mandates from the state, such as collective bargaining and health insurance charges, have totaled tens of millions in costs to the institutions.
- While tuition is a key revenue source for the Regent universities, tuition for FY 2005 has already been set, as required by state statute. The special schools are not allowed to charge tuition for their services to Iowa's vision- and hearing-impaired children.
- Further reductions in state support would inevitably necessarily result in cuts at both the universities and special schools.
- Such reductions would limit opportunities for Iowa students, restrict services for Iowans and their communities, and translate into higher costs for both students and citizens.

The Board has the responsibility to provide planning direction to the institutions for such a contingency.

A proposed resolution for Board consideration (Attachment B) would:

- Continue to emphasize administrative efficiencies.
- Force the universities to consider a series of unpopular and harmful alternatives to meet significant budget reductions, such as:
  - Reconsidering support of off-campus academic centers and outreach services around the state where revenues are less than costs
  - Increasing fees to citizens for non-academic activities such as cultural and athletics events
  - Cutting academic programs, focusing especially on high cost programs that serve relatively few students and on programs that may be duplicative
  - Implementing employee layoffs
  - Reducing enrollments to fit available program capacity in light of reduced offerings and fewer staff
- Direct the special schools to continue to meet federal law by providing individual education services in the classrooms, in itinerant direct service programs, and in the dormitories. These requirements are not flexible. Therefore, cuts would need to be considered in student enrichments and special services for blind and deaf students.

These alternatives move the Regents and its institutions away from providing Iowans with affordable higher education, high quality health care, and growing the Iowa economy. Each of these would be harmful to the state of Iowa.

Bonding Proposal  
Legislation

A multi-year bonding proposal for academic buildings is recommended since it appears that appropriated state funds may not be available for new capital projects at the Regent universities. The Board is asked to consider actively pursuing state financing methods, other than direct capital appropriations, for critical safety and academic capital projects. This could be accomplished by seeking authorization from the legislature to sell academic building revenue bonds over the next three years for high priority facility needs to support instruction and research.

The proposal would finance approximately \$120 million of project costs and would cover some or all of the following:

State University of Iowa

- a. Chemistry Building Renovation
- b. Art Building/Renovation, Phase 2
- c. Fire Safety

Iowa State University

- a. Veterinary Teaching Hospital / Diagnostic Lab
- b. Coover Hall, Information Science
- c. Fire Safety

University of Northern Iowa

- a. Science Buildings Renovation, Phase 1
- b. Russell Hall Renovation

Each of these projects is contained in the Five-Year Capital Plan approved by the Board in September 2003.

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Pamela M. Elliott

Approved:   
Gregory S. Nichols

Regent Legislative Program Issues and Budget Recommendations  
(as presented in November 2003)

LEGISLATIVE OUTREACH

To promote a comprehensive legislative plan, the Board Office proposes that considerable efforts be taken to positively influence the decisions during the legislative process.

- Schedule numerous discussions between members of the Board of Regents and legislative leaders of both houses, as well as visits with the executive branch.
- Hold gatherings on the university campuses and other Board meeting locations to familiarize legislators with the Regent enterprise as well as the unique missions of the various institutions.
- Communicate regularly throughout the legislative session with members of the Board of Regents, alumni, and legislators.

REGENT APPROPRIATIONS REQUESTS

Operating  
Appropriations  
Request

The FY 2005 operating appropriations requests, totaling \$618.7 million, would reinforce the Board's expectation for state support of higher education so that future increases in tuition costs to the students and their families can be moderated, without compromising the quality of education further.

Full Funding of Incremental FY 2005 Salary Funding from state appropriations continues to be the highest priority of the Board and its institutions. An amount has not yet been determined.

Strategic Investments - In recognition of the limited revenues projected for the state, the Board limited the incremental FY 2005 appropriations requests for the educational/programmatic initiatives to \$12.0 million, far short of actual needs.

The requested funding, while a notable amount, would still be \$8.4 million below the funding levels the Board received for the Regent institutions for FY 1998.

Capital and Tuition  
Replacement  
Appropriations  
Requests

Reduction of fire and environmental safety deficiencies and deferred maintenance has been a high priority of the Board of Regents for a number of years. At its September meeting, the Board identified the fire and environmental safety component of the requests as its top capital priority.

The Board approved FY 2005 capital appropriations requests of \$55.5 million for five separate capital projects and \$11.4 million for the correction of fire and environmental safety deficiencies and deferred maintenance. Over \$20 million of fire safety and deferred maintenance deficiencies will be corrected with the completion of these five building/renovations projects.

Tuition replacement appropriations represent an ongoing commitment of the state to meet the debt service cost of Academic Building Revenue Bonds. The FY 2005 tuition replacement appropriations request is \$23.8 million.

REGENT NON-APPROPRIATIONS LEGISLATIVE PROGRAM

**Statutory Changes** Each legislative session statutory language may be added mandating specific regulations that may be appropriate for the times. Certain language often requires the Regent institutions to conduct studies, prepare reports, or some other actions that utilize institutional resources. Rarely, if ever, does the state provide additional funding for these new requirements.

Since the language becomes law, there are currently numerous statutory provisions that utilize resources. The Regent institutions are required to comply with these statutes until the language is eliminated.

As stewards of public resources, the Board of Regents has a responsibility to be as efficient and productive as possible with taxpayers' and students' dollars. Burdensome utilization of ever shrinking Regent resources reduces the educational opportunities for Iowans.

For example, the Regent universities are required, by three different statutory sections, to report on economic development activities.

- Two of the reporting requirements are somewhat similar and very detailed, but one is required on a calendar year basis and one on a fiscal year basis.
- The third report is not specifically defined.
- In addition, the timing of the report required on the calendar year basis is impracticable. It is due to the legislature on January 15.
- These reports are all directly related to Regent economic development appropriations that have sustained substantial cuts (more than 60%). The funding has not been restored.

The state has imposed greater economic development responsibilities on the Regent universities while reducing funding for these specific activities. The state is sending mixed messages to the Regents.

**Consultant  
Conclusions**

As presented to the Board in October 2002, the Board's organizational consultants (MGT of America) concluded that a more comprehensive regulatory relief strategy was needed to address the multiple missions of the Regent institutions and declines in state funding over the years which would allow the institutions to better leverage resources.

Similar to business enterprises, the institutions must compete to generate large amounts of revenues, must manage costs, and must be highly flexible to respond quickly to market forces.

State statute mandates that some services, such as primary telecommunications and internet providers, be provided to by other units of state government at a potentially greater cost rather than allowing the institutions to purchase these services in a competitive market.

Other Statutory Issues      The statutory timing of tuition rate increases will be included in the study on tuition and student financial aid policies scheduled for presentation at a future meeting.

Any recommendations for statutory language changes for timing of tuition rate increases will be highlighted in the Legislative Program docket memorandum for February.

Obsolete Language      The State Auditor had identified three obsolete statutory provisions in its FY 2001 annual audit of Iowa State University; two were repealed by the 2003 General Assembly. An additional obsolete statutory provision was identified in the FY 2002 state audit of ISU. The two Iowa Code sections that need to be deleted are listed below:

- Livestock Producers Assistance Program – Iowa Code 266.39D identifies a livestock producers assistance program to provide on-site assistance to persons involved in livestock production. The program no longer exists.
- Meat Export Research Center – Iowa Code 266.31 established a Meat Export Research Center to expand and support meat product exports from Iowa. The Center no longer exists.

The Board Office staff and the institutions will work together to identify other areas of obsolete code language, such as state funding mechanisms of Regent laboratory schools, and correct the Iowa Code.

Special Funding Requests      In recognition of the significant budget reductions to the Regent institutions, it is recommended that the institutions, in consultation with the Board President and the Executive Directive of the Board of Regents, be authorized to seek funds for special programs through other sources, including state agencies.

For example, the University of Northern Iowa has routinely been specifically authorized by the Board to seek special funds for select programs. UNI requests Board approval of the following special purpose FY 2005 appropriations.

	<u>FY 2005 Request</u>
Ag-Based Industrial Lubricants (ABIL) Program	\$225,000
Iowa Waste Reduction Center	\$0.10 per ton increase in solid waste fees \$50,000 or
Geography Alliance of Iowa	\$250,000 one-time
Iowa Mathematics & Science Coalition	\$50,000
Iowa Safe Surfacing Initiative	\$500,000

## **PROPOSED BOARD OF REGENTS RESOLUTION**

WHEREAS the state revenue estimating conference met on Monday, December 8, and established the state revenue base for FY 2005;

WHEREAS state budget officials estimate that the FY 2005 projected revenues fall short of projected state expenditures by potentially \$300 million;

WHEREAS the Board of Regents, State of Iowa, has responsibilities for directing the expenditures of the Regent institutions and for providing information on budgetary impacts to the citizens of Iowa;

WHEREAS the Board and its institutions, over the last five years, have suffered from significant cuts in state appropriations totaling \$148.6 million and underfunding of salary increases totaling \$66.6 million over this same period of time;

WHEREAS the Board has substantially increased tuition at the state's universities to compensate for the lack of stable funding from the state to maintain the quality of education, putting considerably more burden on students and their families;

WHEREAS tuition for FY 2005 has already been established, as required by state statute, and cannot be adjusted to offset state appropriation reductions;

WHEREAS potential reductions in state appropriations to the Regent institutions for FY 2005 would have a significant effect on programs and services and would limit opportunities for Iowans;

WHEREAS the Board of Regents, State of Iowa, will be meeting December 15 and 16 at Iowa State University, and will have an initial opportunity to publicly discuss potential FY 2005 budget impacts on Regent institutions with institutional executives and provide that information to the public;

THEREFORE;

The Board, exercising its governance authority:

Directs the university presidents to begin planning toward a potential significant FY 2005 state appropriations reduction and report how their universities would implement a potential reduction in state appropriations for FY 2005 consistent with the following priorities:

- Maintain quality in educational programs offered to enrolled students as the top priority even to the extent that enrollments must be reduced or otherwise managed to maintain that quality.
- Propose methods to achieve administrative efficiencies and other cost containment measures through enterprise-wide collaboration or the creation of enterprise-wide non-academic, administrative services.
- Propose the elimination of selected off-campus centers and outreach services where the revenues generated are less than the costs (such as extension activities, Small Business Development Centers, Lakeside Laboratory, the Des Moines Higher Education Center and other off campus educational and outreach centers).



- Propose removal of some or all general funds and/or increases in service fees for selected non-curricular campus-based programs and activities that mainly serve constituents other than enrolled students, with the goal of making such activities as self-supporting as possible (such as intercollegiate athletics, statewide diagnostic laboratory services and centers, and selective cultural activities).
- Propose strategic cuts in on-campus academic programs as necessary to achieve the budget reduction targets, focusing especially on high cost programs that serve relatively few students and on programs that may be duplicative.
- Propose internal budgetary allocations that will protect existing and/or create expanded revenue streams for University General Funds.

In addition, the Board directs the special school superintendents to begin planning toward a potential FY 2005 state appropriation reduction and report to the Board how each school would implement a potential reduction in state appropriations consistent with the following priorities:

- Comply with all individual education plans in the classrooms, in itinerant direct service programs, and dormitories.
- Continue to provide for the health and personal safety of its resident students.
- Reduce student enrichment and special services to achieve the budget reduction targets.

The Board further directs the institutions to provide estimates of employment reductions that would result from their proposals.